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DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

ALASKA PUBLIC UTILITIES COMMISSION

August 1, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: CC Docket No. 96-45

Dear Mr. Caton:

Enclosed are an original and four copies of the Comments of the Alaska Public Utilities Commission in response to the Public Notice (DA96-1078) released July 3, 1996, by the Common Carrier Bureau seeking comments on specific questions on universal service.

Sincerely,

ALASKA PUBLIC UTILITIES COMMISSION

for Don Schröer, Chairman

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	

Comments of the

Alaska Public Utilities Commission

Alaska Public Utilities Commission
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Date: August 1, 1996

Don Schröer, Chairman
Alaska Public Utilities Commission
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

Comments of the Alaska Public Utilities Commission

The Alaska Public Utilities Commission (APUC) appreciates the opportunity to file comments in response to the July 3, 1996, Public Notice (DA 96-1078) on universal service in CC Docket 96-45. Consistent with the Public Notice, the APUC has summarized longer replies.

12. Should discounts [for schools, libraries, and health care providers] be directed to states in the form of block grants?

State control and oversight of block grant disbursement to schools, libraries, and health care providers (SLHs) should only occur on a voluntary basis. If block grants are allotted on a state by state basis, the block grants should a) be sufficient to meet the universal service requirements contemplated under the Telecommunications Act of 1996 (the Act) and b) allow states to file applications for review under a streamlined process to obtain additional funding in the event that the system is inadequate to meet the needs of the SLHs. The amount should be adequate to also cover state administrative expense.

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21. Should the Commission use a sliding scale approach (i.e., along a continuum of need) or a step approach (e.g., the Lifeline assistance program or the national school lunch program) to allocate any additional consideration given to schools and libraries located in rural, insular, high cost, and economically disadvantaged areas?

SUMMARY: Whichever method that is adopted should include a price ceiling to ensure that rates remain affordable in those cases where the normal discount provided to SLHs may not be sufficient.

The APUC proposes that a safety mechanism be embedded in the system to create a cap on the maximum amount paid by a SLH for services eligible for support. There is little data on the record to indicate the range of costs that SLHs experience on a national level. In Alaska, given in part to the dependence on satellite technology to provide service to rural areas, SLHs have found it difficult to obtain access to key services throughout the state. When services are available, prices tend to be high, though little data is available to suggest what price range will ultimately be experienced by all SLHs.[1] Given this lack of information on the price extremes, the Joint Board cannot guarantee that any discount alone will lead to affordable rates to all SLHs in all instances.

As a result, the APUC proposes that the Joint Board recommend that any discount plan include a price ceiling for the rate faced

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[1]See the Position Statement of the Distance Delivery Consortium (DDC), addressed to the Federal-State Joint Board CC Docket No. 96-45, April 5, 1996. The DDC provided limited examples where Internet access costs to rural schools were 32 to 338 times higher than that found in an urban area, with service improvements in the rural areas at times not available for a number of years.

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by the SLH. The price in excess of the ceiling would be paid through universal service support.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

SUMMARY: A bifurcated plan should be adopted to allow small rural companies to obtain universal service support based on their actual costs instead of proxy model costs. "Ruralness" should be determined by the state as part of the eligibility process, through applying the definition under the Act at 47 U.S.C. 153(a)(37).

All rural companies should be able to obtain support based on actual book costs instead of proxy costs if a proxy system is implemented. First, all of the proxy models to date are based to a significant degree on the cost characteristics of large local exchange companies with extensive operations in urban areas. As a result, it cannot be concluded that any of the models truly represents the costs for an efficient small rural company. For example, none of the proxy models adequately take into consideration that small rural companies may have extremely low economies of scale or may not be able to negotiate the cost discounts available to the larger, urban-based local carriers. Furthermore, no correlation has ever been shown to exist between the outputs of any of the proxy models and actual construction costs of existing companies. The APUC therefore supports the concept that small rural companies should remain under some form

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of the existing high cost support system until pilot projects can be run of any new system and it can be quantitatively demonstrated that the new system will lead to reasonable results when applied to small rural companies. As a matter of convenience and consistency, the definition of "rural" should be that specified under the Act.

As all companies seeking universal service support must apply for eligibility to the state public utilities commissions, it would be efficient and reasonable for the state to also determine at that time whether the company met the definition of "rural" under the Act and should therefore be able to employ actual costs in place of proxy costs.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

Rural carriers should begin to transition off of a bifurcated approach, if at all, only after a) it can be quantitatively demonstrated that the new system reasonably reflects the cost characteristics of the small companies involved, and b) streamlined procedures are in place to accommodate requests for waiver to use alternative methods (e.g., alternate proxy)or a cost based system.

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41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

SUMMARY: The filed proxy and competitive bidding models are inappropriate for Alaska. Alaskan companies should remain on some form of the actual cost based system and not be moved to any of the currently proposed proxy systems at this time until it can be quantitatively documented that application of the proxy model to Alaska would lead to no harm and does not produce unwarranted reductions in high cost support. The updated version of the Benchmark Cost Model (BCM2)[2] when applied to Alaska would yield erroneous results with drastic consequences.

As has been documented in the APUC's Comments filed on October 9, 1995, in CC Docket No. 80-286 (See Attachment A), Alaska's high costs are the result of several conditions including:

a) Terrain, slope, and surface characteristics such as mountains, glaciers, rivers, permafrost, ice effects, avalanche susceptibility, and the physical placement of the plant to accommodate these factors;

b) Harsh climate;

c) Lack of a road system to most of the state's locations and heavy reliance on airplanes and sea barge to transport equipment and access the majority of rural communities in Alaska;

[2]See July 3, 1996, filing by US West and Sprint, CC Docket No. 96-45.

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d) Limitations placed on surface transportation and the construction season due to Arctic conditions;

e) Limited economies of scale (e.g., service to exchanges of under 200 lines); and

f) High labor costs.

None of the proxy models filed to date reflect any of the above factors. As a results, the APUC does not believe that any of the existing proxy models are appropriate to Alaska.

In addition, given that local competition does not exist in rural Alaska at this time, it would seem premature to adopt a competitive bidding based model for rural Alaska. The APUC therefore proposes that Alaskan local exchange carriers should be allowed to remain on some form of the existing cost-based system at this time, until it can be quantitatively documented that the new proxy model, when applied to Alaska, leads to no harm and does not produce unwarranted reductions in high cost support.

Alaska is highly reliant on universal service support to maintain rates at reasonable levels. Without support, local rates in Alaska could increase by $20 to $80 per month in some locations. As support to Alaska currently represents only 4% of the existing Universal Service Fund and weighted Dial Equipment Minutes support systems, the APUC believes that maintaining Alaska on an actual cost system will not be unduly burdensome.

The existing proxy models should not be applied to Alaska as they fail to adequately represent Alaska costs. For example, several of the models currently under consideration are based on

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the Benchmark Cost Model (BCM). The APUC has reviewed the updated version of the BCM (BCM2) and concluded that there is a serious flaw in the results for Alaska and possibly for other states. The APUC performed a correlation test between existing high cost support provided under the Universal Service Fund (USF) as reported under the May 1996, Monitoring Report in CC Docket No. 87-339 and the support that would be provided to each state under BCM2 given a $20, $50, and $80 revenue benchmark. This correlation indicated that under BCM2, Alaska will receive an unusually low (in fact the lowest) amount of support, relative to existing levels of high cost support, compared to all other states.[3]

To illustrate this point, local exchange companies in the state of Nevada have on average the lowest unseparated non-traffic-sensitive NTS revenue requirements per loop in the country ($186/loop) and obtain about $3 million in USF support. Under BCM2, these carriers would receive $84 million in support, 28 times the existing USF, at the $20 benchmark level. Alaska, with one of the highest historical per loop costs ($381.62) would receive only 1.8 times its existing USF support ($31 million compared to $58 million). At the $50 benchmark, Alaska is the only state that would receive less under BCM2 (68%) than under the existing USF, with many other states receiving over 10 times their

[3]APUC's analysis was run assuming a $20, $50, and $80 revenue benchmark. For the $20, and $50 benchmark, Alaska has the lowest BCM2 support to historical loop support ratio. For the $80 benchmark, 75% of the states have a higher BCM2 support to historical support ratio than Alaska.

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existing levels of support. At the $80 benchmark, Alaska would receive 34% of its existing USF while carriers in states with low average loop cost such as Nevada and Pennsylvania would obtain 481% and 829%, respectively, of their existing levels of support. At the $80 benchmark, Alaskans in rural areas could see, on average, local phone rates increase by over $100 per year.[4] See Attachment B. Furthermore, under the existing system Alaska receives the fifth highest amount of USF support while under BCM2 at the $20 benchmark level, Alaska would receive the sixth lowest amount of support.

These figures demonstrate that there is something seriously wrong with BCM2 and likely any model reliant on the BCM foundation. As a result, application of a BCM based model should not be required in Alaska.

As a last point, the APUC notes that under BCM2 many areas of Alaska where local exchanges exist are not included in the cost analysis (see Attachment C). For example, Deadhorse/Prudhoe Bay does not appear to be incorporated in the cost model.

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[4]Assuming existing levels of USF support ($31 million) are reduced to the BCM2 level ($11 million at the $80 benchmark), with approximately 180,000 rural access lines affected.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

SUMMARY: A streamlined, well documented, waiver process must be included in any proxy mechanism to accommodate those companies with legitimate high costs that are not contemplated under the model. Applications for waiver should be accepted whenever use of the proxy model would lead to a set amount of increase (e.g., $2) in the monthly local phone bill.

The proxy models filed in this proceeding consider only a limited number of factors that may lead to high costs. There will be instances where a company will experience high costs due to conditions not adequately represented under the model. Some companies may also have a one time occurrence of high costs (e.g., damage due to earthquake, flood, or storm) that cannot be predicted by any proxy model. In both of these circumstances, the company involved should have an opportunity to apply for and receive waiver to allow alternative treatment. Any such waiver process should be streamlined and clearly described such that companies are aware of what documentation need be provided and under what conditions waiver may be granted. Applications for waiver should be accepted whenever use of the proxy model would lead to an increase in the monthly local rate that is greater than a set amount (e.g., $2). Setting a limit of this kind may prevent rate shock and reduce subscriber losses.

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45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

No. The model should be a public document.

Conclusion

The APUC requests that any changes to the existing high cost support system be carefully considered and quantitatively reviewed prior to applying the system to small rural companies. Many of the existing proxy and competitive bidding proposals offered to date in this proceeding are clearly inadequate to address high cost issues in rural areas of the nation.

RESPECTFULLY SUBMITTED this 1st day of August, 1996.

BY DIRECTION OF THE COMMISSION

Sincerely,

ALASKA PUBLIC UTILITIES COMMISSION

for By: Commissioner Don Schröer
Chairman of the Alaska Public
Utilities Commission
1016 West Sixth Avenue, Suite 300
Anchorage, Alaska 99501
1-907-276-6222

cc: William F. Caton
Acting Secretary
Federal Communications Commission

Attached List

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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Amendment of Part 36 of the	)	CC Docket No. 80-286
Commission's Rules And	)	
Establishment of a Joint Board	)	

Comments of the

Alaska Public Utilities Commission

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Date: October 9, 1995

Don Schröer, Chairman
Alaska Public Utilities Commission
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SUMMARY

The various Federal Communications Commission (FCC) proposals for preserving and promoting universal service in a competitive environment may fall short of expectations and should be further refined to address the critical needs of rural states such as Alaska that have existing low penetration rates and unusual cost characteristics. Universal service throughout the nation has not been fully attained and efforts to prematurely eliminate or reduce critical support mechanisms such as the Universal Service Fund (USF) and Dial Equipment Minutes weighting may exacerbate this problem.

Changes to existing policy must be carefully considered prior to nationwide implementation and weighed carefully against effects on areas with low subscribership levels and high costs. The APUC therefore requests the FCC to explore the impact of any new policy proposal prior to its nationwide application. It may be beneficial to perform trial runs of the more acceptable approaches to see their effects.

The APUC believes that the high-cost credit, proxy, and Census Block Group proposals as presently conceived and discussed under the Notice of Proposed Rulemaking/Notice of Inquiry are insufficiently defined to allow a conclusion that each would promote universal service in a competitively neutral manner, if applied nationally. In addition, state commissions should have control over whether there is sufficient competition

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Comments of the
Alaska Public Utilities Commission

The Alaska Public Utilities Commission (APUC) welcomes the opportunity to file comments in response to the Notice of Proposed Rulemaking and Notice of Inquiry (NPRM/NOI) released July 13, 1995, in CC Docket No. 80-286. The APUC recognizes the need to reevaluate the existing procedures that provide cost support to high cost areas as local competition becomes more prevalent in the nation. However, care must be taken that any new policy changes that may be appropriate in urban areas do not accidentally harm the more rural areas of the nation where needs and characteristics are different. Given that over 90 percent of all Alaskan locations are classified as "rural,"[1] the APUC is especially concerned that broad sweeping regulatory changes be well adapted to meet rural needs.

Much of Alaska is typified by isolated, remote villages with low population. About 54 percent of all exchanges in Alaska serve under 100 access lines and 85 percent of the exchanges

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The APUC has reviewed the proposals identified in the NPRM/NOI and believes that many of them in their current form may require further refinement or may not be well suited to accommodate the special conditions found in rural areas. Other proposals that suggest that federal support mechanisms are no longer needed and can be eliminated should also be reevaluated in light of the devastating effect they may have in high-cost rural areas. The APUC urges the Federal Communications Commission (FCC) to recognize that universal service in all areas of the nation has not been attained and efforts to prematurely reduce or eliminate critical support mechanisms may exacerbate this problem.

The APUC has responded to the NPRM/NOI in light of its rural perspective. As requested, the APUC has sequenced its comments on these matters in accordance with the order and headings of the NPRM/NOI.

(Paragraphs 9 -- 12) II. Proposals for revision of the Dial Equipment Minute (DEM) weighting rules

The APUC recommends that weighted-DEM support continue until it can be shown that an improved replacement mechanism exists. For small companies, elimination of DEM support could be devastating. In Alaska alone, data indicates that without DEM weighting, the majority of companies could see local rate increases between $10 and $55.50 *per line per month*.[5] This level of impact is not a reflection of inefficiency due to antiquated

[5]*See* Appendix B.

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total number of lines served within a state by all LECs under common control or ownership. The APUC opposes the idea that separate legal entities under common control must file data as if they were one entity for purposes of determining high-cost support. To direct that these companies report and share cost support as if they were a single entity effectively and unnecessarily encroaches on the state's ability to require separate structures for each company. Such preemption has not been justified.

The APUC also requests that if this proposal is adopted, the FCC identify how the affiliated companies would share high-cost support. Depending upon the apportionment procedures, cross-subsidization between companies and potential mismatching of high-cost support could occur. There is also the possibility that this approach would lead to artificially reduced levels of support as: a) the plan appears to assume that costs for two or more discrete, small firms are the same as for one large firm for purpose of providing high-cost support, and b) the amount of high-cost support available to one utility would be based in part on the unrelated costs or characteristics (if proxies are employed) of an affiliated company that may be based several hundred miles away.

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b) The plan does not specify assumptions or indicate how payment of *per customer* high-cost credits will be made compatible with the sale of *network* services sold between competitive carriers. It is likely that carriers will buy network services from one another in order to complete local calls. If the manner in which network services are sold is not compatible with the high-cost credit system, the support mechanism may fail to work as intended and competition may be harmed. For example, it may not be fair for a competitor to pay a high price so that it can terminate a local call in a high-cost Census Block Group (CBG), and also not be eligible for high-cost credits as its customers reside in low-cost CBGs. Many questions remain regarding: i) how the overall system will be crafted to address intercarrier services and rate issues; ii) what assumptions need to be made regarding such service and rates; iii) whether the FCC would need to preempt states' control over local intercarrier rates so as to promote the workability of high-cost credits; iv) whether intercarrier rates should be deaveraged on a CBG or other basis; and v) whether intercarrier rates will be so complex, unwieldy, and costly to implement that it will discourage small entrants from the market?

c) The proposed high-cost credit system also does not appear to address the allocation of high-cost credits when a

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always provide the best "service block size" for purposes of determining support levels.

c) Use of CBGs as a national standard may be anticompetitive. It will be difficult to attract competitors to serve a CBG if the competitor must serve several remote locations (i.e., the entire CBG) at once in order to be eligible for high-cost support. Similarly, a competitor may well choose not to serve an entire CBG if one of the locations within that CBG is extremely difficult or uneconomical to serve.

d) It may be difficult to develop exact cost support per CBG in a consistent and easily-auditable manner. For example, as CBGs have no planned relationship to the physical network, there will be cases where it will be necessary to allocate costs of jointly used equipment among CBGs. This allocation process has not been defined and may be difficult to develop and audit, especially given the vast number of CBGs involved. In the alternative, if proxies per CBG are used in place of cost, it remains to be shown whether a proxy would accurately simulate the cost characteristics of each CBG.

e) Use of high-cost credits and CBGs to determine cost support may be extremely labor intensive, complex, administratively burdensome, and problematic.

Given the above, the APUC believes that CBG's are not necessarily a preferred "service block" standard everywhere in the nation. It may be better to evaluate service commitment and determine high-cost support based on a community or some other

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Eligibility for funding must also be linked with quality-of-service standards. Without such standards a carrier's commitment to serve could be of no value. The public is not benefited by providing scarce support dollars to a company that fails to furnish reasonable quality service.

When considering whether to adopt quality-of-service standards, the FCC should not assume that the state certification process in and of itself will ensure a reasonable level of service. Not all states will impose quality-of-service standards on nondominant carriers in their competitive markets.[8]

Last, the FCC has proposed that as part of any service responsibility standard a carrier must provide local service at rates not exceeding the national average by more than 30 percent. The FCC, however, has not defined what is the "national average" rate and whether that includes subscriber-line charges, taxes, or other miscellaneous charges. It is also unknown to what extent support funding will be broadened to ensure that compliance with the 130 percent standard would be possible. Without further information it is not possible to determine whether the 30 percent cap is reasonable.

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[8]For example, the APUC has determined that no quality of service standards should apply to nondominant competitors in the Alaska intrastate interexchange market.

order service regardless of cost. As rates increase, customers will drop off the system. For example, without the USF, it is estimated that local phone rates to some parts of Alaska could rise to over $50/month. Clearly, at these levels customers will discontinue service and further reduce the available revenues necessary to the support the telecommunications infrastructure.

Limiting cost support to "needy" customers would threaten the goal for high-cost companies to have sufficient support to be able to build plant and provide service to everyone regardless of the type of customer served. Without sufficient support, a utility may find that it has fewer resources to maintain its infrastructure and service quality, and service availability and the carrier's competitiveness may decline.

Given the above, the APUC would not support using subscriber characteristics to distribute high-cost credits. However, if a customer-eligibility standard is adopted it must take into account not only income, but also cost-of-living, and possibly other, factors.

(Paragraphs 32 -- 33) III. B. Option One: modify the current rules but continue to base high-cost assistance on carriers' reported costs

(Paragraph 34) Require carriers to calculate the costs and number of loops in a study area based on all loops served by affiliated companies in the same state

In addition to the use of high-cost credits, the NPRM/NOI also suggests under Option One several modifications to the existing USF support mechanism. The first such approach would require

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Accounts 6120, 6710, and 6720 than do larger companies and would face a greater impact by exclusion of these accounts from the USF calculation. The table below clearly demonstrates that as company size decreases the impact of elimination of the three accounts increases. This would indicate that there are economies of scale at work in the process that must be considered when defining reasonable support levels. To do otherwise would harm the very smallest companies that most likely need support.

Table 1: Effects on local costs per loop if Accounts 6120, 6710, and 6720 were eliminated from the USF process.[9]

Company Size	Annual Increased Cost/Loop
Under 1000 lines	$120/loop
1001 to 5000 lines	$ 51/loop
5001 to 20,000 lines	$ 21/loop
20,001 to 50,000 lines	$ 10/loop
50,001 to 1 Million lines	$ 8/loop
over 1 Million lines	$ 0/loop

(Paragraph 38) Option One-A: Adjust the Existing Formula

(Paragraph 39) Increase the threshold for receiving assistance

One of the variations on Option One considered by the FCC is to raise the threshold for high-cost USF support by a standard deviation, or some fraction thereof, above the national average.

[9]Source data for analysis provided by National Exchange Carrier Association, Inc.

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USF of between $2 to $9 per line per month. Such USF losses and resultant rate increases appear unnecessarily high and inconsistent with the goal of making the USF a more efficient mechanism for preserving universal service given a competitive environment. Given the above, the APUC would suggest that the FCC adopt an alternative to the sliding scale/reduced factor method discussed in Paragraphs 42 and 43 of the NPRM/NOI.

The FCC also suggests eliminating the distinction between large and small companies for purposes of paying support, with a cap to control growth in the USF fund. Without knowing further details regarding how the cap will be applied and adjusted over time, it is impossible to conclude that this proposal will reduce only slightly the support for the LECs that need it most.

(Paragraph 45) Eliminate Assistance to LECs Receiving Minimal Assistance Per Line Per Month

The APUC supports the withdrawal of assistance to LECs receiving less than $1 per line per month as the best and preferred method to reduce the USF fund while ensuring that no one carrier is overly burdened as a result of lost USF resources. LECs receiving less than $1 per line per month from the fund should be able to easily accommodate the lost support, as the magnitude of the loss is relatively small and may be recoverable through increased efficiency.

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would reduce support to needy companies in an arbitrary manner subject to the costs of other carriers and the entrance of new competitive carriers into the support system.

(Paragraph 49) Use high-cost credits for large LECs study areas only

If high-cost credits (as presently conceived) are implemented, then the APUC believes that they should initially be applied on a trial basis only to large LECs. In the long term, the APUC supports the position that if an acceptable high-cost credit system is developed and implemented, it should be applied based on state commission determination of "service blocks" that have sufficient potential for or existing levels of competition. Under this approach, the state commission could limit or expand the application of high-cost credits to large and small LEC service areas as appropriate.

(Paragraph 50) Make credits available for subscriber lines served by LEC competitors in eligible census block groups

As previously stated, the APUC has reservations regarding the high-cost credit system in its current form and would, therefore, support proposals that would limit its application as suggested in the NPRM/NOI at Paragraph 50.

(Paragraphs 51 -- 54) Option One-C: combine DEM weighting and USF programs by basing high-cost assistance on both local switching and loop costs

Under Option One-C, loop and switching costs would be combined for purposes of assessing support under one of the Option

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